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## MARKEDLY LOW: AN ARGUMENT TO RAISE THE BURDEN OF PROOF FOR PATENT FALSE MARKING

CAROLINE AYRES TEICHNER\*

### INTRODUCTION

Under the patent false-marking statute, 35 U.S.C. § 292, any person may sue whoever marks an unpatented article as patented for the purpose of deceiving the public, an offense punishable by a maximum fine of \$500.<sup>1</sup> Prevailing plaintiffs split this money evenly with the U.S. government, thereby making § 292 a *qui tam* statute.<sup>2</sup> Since the Court of Appeals for the Federal Circuit<sup>3</sup> recently held in *Forest Group, Inc. v. Bon Tool Co.* that the \$500 fine under § 292 applies on a per-article basis, the potential awards for plaintiffs can be enormous, especially where defendants have mass-produced falsely marked articles.<sup>4</sup> For instance, the plaintiff in *Pequignot v. Solo Cup Co.* claimed that the defendant falsely marked at least 21,757,893,672 cup lids with expired patent numbers in violation of § 292.<sup>5</sup> Accordingly, the plaintiff sought to recover \$250 per lid, or \$5.4 *trillion*, which “would be sufficient to pay back 42% of [this] country’s total national debt.”<sup>6</sup> Although a court would never award such an astronomical sum of money to any plaintiff, this calculation pointedly illustrates why patent false-marking suits have captured the attention of businesses, patent attorneys, and the media in the United States.

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1. See 35 U.S.C. § 292 (2006). Part I.B *infra* presents the text of § 292.

2. See *id.* § 292(b). Under *qui tam* statutes, “an individual sues or prosecutes in the name of the government and shares in the proceeds of any successful litigation or settlement.” CHARLES DOYLE, CONG. RESEARCH SERV., R40785, QUI TAM: THE FALSE CLAIMS ACT AND RELATED FEDERAL STATUTES 1 (2009), available at <http://www.fas.org/sgp/crs/misc/R40785.pdf>.

3. In 1982, Congress passed legislation that created the Court of Appeals for the Federal Circuit, which primarily hears appeals involving patent law issues that arise in the federal district courts. See ROBERT PATRICK MERGES & JOHN FITZGERALD DUFFY, PATENT LAW AND POLICY: CASES AND MATERIALS 11 (4th ed. 2007).

4. See *Forest Grp., Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1304 (Fed. Cir. 2009).

5. See *Pequignot v. Solo Cup Co.*, 608 F.3d 1356, 1359 (Fed. Cir. 2010) (affirming summary judgment for defendant because Solo Cup Co. successfully rebutted presumption of intent to deceive the public).

6. *Id.* at 1359 n.1.

Adding to the false-marking frenzy, the Federal Circuit held in *Stauffer v. Brooks Brothers, Inc.* that a *qui tam* plaintiff who suffered no personal injury as a result of the defendant's false marking nevertheless had Article III standing to sue under § 292.<sup>7</sup> Given the prospect of vast riches and a relaxed standing requirement, many private individuals and patent attorneys have gone into the business of suing companies for false marking.<sup>8</sup> These individuals simply wander through retail stores using their hand-held Internet devices to look up whether the patent numbers stamped on various products actually cover the products or whether the patent has expired.<sup>9</sup> By October 2010, more than 500 false-marking lawsuits had been filed that year, with over half of those suits brought by just eight plaintiffs.<sup>10</sup> One such individual, deemed "the most prolific false marking plaintiff,"<sup>11</sup> filed at least twenty-seven complaints in February 2010 alone alleging false marking against various companies.<sup>12</sup> Notably, a majority of false-marking suits stem from allegations that companies marked their products with expired patent numbers.<sup>13</sup> Oftentimes, the companies in these cases made their products using expensive-to-replace manufacturing molds that featured outdated patent information.<sup>14</sup>

7. See *Stauffer v. Brooks Bros., Inc.*, 619 F.3d 1321, 1325 (Fed. Cir. 2010) (reasoning that "[b]ecause the government would have standing to enforce its own law, [the *qui tam* plaintiff], as the government's assignee, also has standing to enforce section 292"). In March 2011, a bill was introduced in the U.S. House of Representatives that proposed changing the current false-marking statute to allow only those persons "who [have] suffered a competitive injury" to bring suit under § 292(b). H.R. 1249, 112th Cong. § 16(b) (2011). As of early June 2011, there has been no further major progress on the passage of this bill. In March 2011, the U.S. Senate passed a bill containing similar language, see S. 23, 112th Cong. § 2(k) (2011) (collectively, H.R. 1249 and S. 23 are known as "The America Invents Act of 2011"), which has since been sent to the House of Representatives.

8. See Joe Mullin, *Patent Litigation Weekly: Who is Driving the False-Marking Frenzy?*, LAW.COM (May 31, 2010), <http://www.law.com/jsp/cc/PubArticleCC.jsp?id=1202458966077>.

9. See Dionne Searcey, *New Breed of Patent Claim Bedevils Product Makers*, WALL ST. J. (Sept. 1, 2010), <http://online.wsj.com/article/SB10001424052748703467004575463843289453872.html>.

10. See Justin E. Gray, *False Marking – Over 500 Suits Filed in 2010; New Bill Proposed to “Fend Off” Such Suits*, GRAY ON CLAIMS (Oct. 20, 2010, 10:52 AM), <http://www.grayonclaims.com/home/2010/10/20/false-marking-over-500-suits-filed-in-2010-new-bill-proposed.html>.

11. *False Marking Plaintiff borrows a page from Simonian in filing its own Amended Complaint*, DOCKET REP. BLOG (June 1, 2010, 4:04 PM), <http://docketreport.blogspot.com/2010/06/false-marking-plaintiff-borrows-page.html> [hereinafter *False Marking Plaintiff*] (discussing Thomas Simonian).

12. See *False Marking False Marking False Marking False Marking all at up to \$500 per offense*, PATENTLY-O BLOG (Feb 26, 2010, 7:17 PM), <http://www.patentlyo.com/patent/2010/02/false-marking-false-marking-false-marking-false-marking-all-at-up-to-500-per-offense.html?cid=6a00d8341c588553ef0120a8da7bad970b>.

13. See Mullin, *supra* note 8.

14. See, e.g., *Pequignot v. Solo Cup Co.*, 608 F.3d 1356, 1358–59 (Fed. Cir. 2010). In *Pequignot*, the defendant became aware in 2000 that it was marking its products with a patent number that expired in 1988. See *id.* at 1358. However, the expired patent numbers were incorporated into the defendant's manufacturing mold cavities, which were replaced only once every fifteen to twenty years. See *id.* Because it was too expensive for Solo Cup to replace all the mold cavities at the same time, Solo Cup

Section 292 does not prescribe a burden of proof for false-marking claims.<sup>15</sup> However, in keeping with its liberal treatment of the statute, the Federal Circuit held that plaintiffs must prove intent to deceive the public—the key element of a false-marking claim—by a mere preponderance of the evidence.<sup>16</sup> This note argues that the preponderance standard is an insufficient burden of proof and that the court should have imposed the more stringent clear and convincing standard to false-marking claims for the following reasons. Firstly, a higher burden of proof would effectively discourage opportunistic *qui tam* plaintiffs from engaging in the suing-for-sport behavior spawned by the Federal Circuit's recent rulings about award calculations and Article III standing under § 292. Secondly, the legislative history and policy rationales underlying the false-marking statute, plus the lessons garnered from analogous legal contexts, support this higher burden of proof. Most importantly, an elevated burden of proof is necessary to satisfy the due process requirements of the Fifth Amendment.

In turn, this note will address the following subject matter: (1) the genesis of false-marking statutes in America and the policy rationales underlying these provisions; (2) the historical cases in which courts offered divergent interpretations of earlier false-marking statutes; (3) the unsatisfactory nature of the Federal Circuit's application of the preponderance standard to § 292; (4) the reasons why justifications for elevated burdens of proof in analogous legal contexts support a heightened burden for false-marking claims; and (5) the need for a higher burden of proof to satisfy constitutional due process requirements.

## I. BACKGROUND

### A. *Historical False-Marking Statutes*

Before delving into the modern false-marking statute, it is instructive to consider the genesis of § 292 and how technological progress—particularly the rise of the Internet—has affected the intended operation of the statute.

devised a policy (based on outside counsel's advice) under which the molds would be replaced as needed due to wear or damage, and the new molds would not include the expired patent numbers. *See id.* at 1359. The court thus found that Solo Cup acted in good faith and did not intend to deceive the public by marking its products with expired patent numbers. *See id.* at 1364.

15. *See* 35 U.S.C. § 292.

16. *See* *Clontech Labs., Inc. v. Invitrogen Corp.*, 406 F.3d 1347, 1352–53 (Fed. Cir. 2005).

### 1. Public Access to Patents over Time

Although the legislative history surrounding earlier false-marking statutes is silent as to congressional intent for enacting these provisions, one source identified two “possible influencing factors.”<sup>17</sup> First, in 1836, a fire at the U.S. Patent and Trademark Office (USPTO) destroyed almost 10,000 patent files, thereby depriving the USPTO of complete records in the mid-nineteenth century, which corresponds to the time Congress passed the first false-marking statute.<sup>18</sup> Second, in the mid-1800s, the public had extremely limited access to copies of issued patents, given that the USPTO published mere descriptions of them in a small number of journals printed by the Franklin Institute of the State of Pennsylvania.<sup>19</sup> Therefore, in the nineteenth century, the public likely would not have known that an article was patented unless the patentee had marked it with a patent number.<sup>20</sup> Similarly, the public presumably would have struggled to discern whether an article had been falsely marked.

Yet, the problem of limited public access to issued patents was not unique to the nineteenth century. In fact, the problem arguably persisted until widespread Internet access became available. An author writing in 1972 noted the difficulties of obtaining patent information and identifying falsely marked products: If an article featured a patent number, “the patent could be ordered and compared with the article”; but, if the article was labeled only “patented” or “patent pending,” one would either have to request the patent information from the manufacturer, which “would probably not be successful,” or pay for a patent search, which might cost more than any possible reward under § 292 (before the *Bon Tool* “per-article” rule took effect).<sup>21</sup>

17. Trevor K. Copeland & Laura A. Lydigsen, *Qui-tam-osaurus, the Statutory Dinosaur: Evolution or Extinction for the Qui Tam Patent False Marking Statute?*, ENGAGE, Oct. 2009, at 86, available at [http://www.fed-soc.org/publications/pubid.1715/pub\\_detail.asp](http://www.fed-soc.org/publications/pubid.1715/pub_detail.asp). See discussion *infra* Part I.D for policy reasons underlying the false-marking statute.

18. See Copeland & Lydigsen, *supra* note 17; see also *Great Patent Fire of 1836*, U.S. PAT. & TRADEMARK OFF., <http://www.uspto.gov/web/offices/ac/ahrpa/opa/kids/special/1836fire.htm> (last visited Apr. 27, 2011); S. 220, 27th Cong. § 2 (1842) (mentions “patents lost prior to the fifteenth of December, eighteen hundred and thirty-six,” clearly in reference to the USPTO fire).

19. See Copeland & Lydigsen, *supra* note 17; see also H.R. 102, 30th Cong. § 12 (1848) (“[T]he Commissioner of Patents be, and he is hereby, authorized to publish monthly in the Journal of the Franklin Institute of the State of Pennsylvania, a description of all the patents granted at the [U.S. Patent and Trademark] [O]ffice . . . and that the Franklin Institute furnish monthly, twelve hundred and fifty copies of their Journal.”).

20. See Copeland & Lydigsen, *supra* note 17.

21. Michael O. Sturm, *Does 35 USC 292 Effectively Prevent False Marking?*, 54 J. PAT. OFF. SOC’Y 398, 404 (1972).

Furthermore, in the past, 35 U.S.C. § 122 required the USPTO to keep all patent applications secret until they issued as patents, making it “practically impossible” to determine if a patent application covering a given invention had been filed in the United States.<sup>22</sup> This changed in 1999 when Congress enacted 35 U.S.C. § 122(b), which states that the USPTO shall publish (with exceptions) patent applications that have been pending for eighteen months.<sup>23</sup> According to the USPTO, most applications filed after the effective date of § 122(b) will publish within eighteen months of the filing date.<sup>24</sup>

Today, the USPTO—among many other providers—offers free, public access to its patent records via the Internet.<sup>25</sup> As a result, it is now much less burdensome, expensive, and time-consuming to determine whether an article is covered by a current patent or has been falsely marked.<sup>26</sup> Interestingly though, “[d]espite these dramatic changes to information accessibility, the current false marking statute is remarkably similar to its antiquated predecessor[s].”<sup>27</sup> Thus, changes over time in the accessibility of issued patents—without corresponding changes in the false-marking statute—have conferred a significant advantage on opportunistic *qui tam* plaintiffs today.

## 2. Nineteenth-Century False-Marking Statutes

Congress first enacted a false-marking statute in 1842. The statute provided in part that “a penalty of not less than one hundred dollars” would be imposed on “any person . . . [who] shall write, paint, print, mould, cast, carve, engrave, stamp, or otherwise make or affix the word ‘patent,’ . . . on any unpatented article, for the purpose of deceiving the public.”<sup>28</sup> The statute also contained a *qui tam* provision that read, “[O]ne half of [the] penalty, as recovered, shall be paid to the patent fund, and the other half to any person or persons who shall sue for the same.”<sup>29</sup>

22. *Id.* at 405.

23. See 35 U.S.C. § 122(b) (2006) (applies to patent applications filed on or after November 29, 2000).

24. See *Frequently Asked Questions About Patents*, U.S. PAT. & TRADEMARK OFF., <http://www.uspto.gov/faq/patents.jsp#a2> (last modified Dec. 3, 2009).

25. See *Search for Patents*, U.S. PAT. & TRADEMARK OFF., <http://www.uspto.gov/patents/process/search/index.jsp> (last modified Oct. 13, 2010).

26. Of course, determining conclusively whether a patent covers a given article requires claim construction, which is arguably difficult and time-consuming. See generally MERGES & DUFFY, *supra* note 3, at 781–894.

27. Copeland & Lydigsen, *supra* note 17; see statutory text *infra* Parts I.A.2, I.B.

28. Act of Aug. 29, 1842, § 5, 5 Stat. 543, 544 (1842).

29. *Id.*

In 1870, Congress passed a revised patent and copyright act that included a false-marking provision, Rev. St. § 4901, 35 U.S.C. § 50.<sup>30</sup> Section 4901, which endured until Congress enacted the modern false-marking statute in 1952, provided that “[w]ho, in any manner, marks upon or affixes to any unpatented article the word ‘patent,’ . . . for the purpose of deceiving the public, shall be liable, for every such offense, to a penalty of not less than one hundred dollars.”<sup>31</sup> Again, this statute included a *qui tam* provision under which “one half of said penalty [goes] to the person who shall sue for the same, and the other to the use of the United States.”<sup>32</sup>

### B. *The Modern False-Marking Statute*

The language of both predecessor false-marking statutes largely parallels that of the modern false-marking statute, 35 U.S.C. § 292, which provides:

Whoever marks upon, or affixes to, or uses in advertising in connection with any unpatented article, the word “patent” or any word or number importing that the same is patented for the purpose of deceiving the public; or

Whoever marks upon, or affixes to, or uses in advertising in connection with any article, the words “patent applied for,” “patent pending,” or any word importing that an application for patent has been made, when no application for patent has been made, or if made, is not pending, for the purpose of deceiving the public—

Shall be fined not more than \$500 for every such offense.

(b) Any person may sue for the penalty, in which event one-half shall go to the person suing and the other to the use of the United States.<sup>33</sup>

From this text, courts have identified two elements of a false-marking claim: “(1) marking an unpatented article and (2) intent to deceive the public.”<sup>34</sup> Notably, the most significant difference between the historical false-marking statutes and the current one is the penalty; under the earlier sta-

30. See *London v. Everett H. Dunbar Corp.*, 179 F. 506, 508 (1st Cir. 1910).

31. *Id.* at 507.

32. *Id.*

33. 35 U.S.C. § 292 (2006) (first enacted in 1952). The first paragraph of the statute—which is not relevant to this analysis—reads:

Whoever, without the consent of the patentee, marks upon, or affixes to, or uses in advertising in connection with anything made, used, offered for sale, or sold by such person within the United States, or imported by the person into the United States, the name or any imitation of the name of the patentee, the patent number, or the words “patent,” “patentee,” or the like, with the intent of counterfeiting or imitating the mark of the patentee, or of deceiving the public and inducing them to believe that the thing was made, offered for sale, sold, or imported into the United States by or with the consent of the patentee.

*Id.* § 292(a).

34. *Forest Grp., Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1300 (Fed. Cir. 2009).

tutes, the prescribed penalty was a minimum of \$100, whereas now, the penalty is set at a maximum of \$500.<sup>35</sup> Like the earlier false-marking statutes, § 292 contains a *qui tam* provision in paragraph (b), which allows private individuals to bring false-marking suits on behalf of the U.S. government in return for a monetary award upon winning.<sup>36</sup>

### C. Qui Tam Statutes

The term “*qui tam*” originates from the Latin phrase “*qui tam pro domino rege, quam pro se ipso in hac parte sequitur*,” which means “who as well for the king as for himself sues in this matter.”<sup>37</sup> *Qui tam* statutes originally surfaced in Roman criminal law and allowed private citizens to prosecute defendants in exchange for a portion of the defendant’s property if the former prevailed.<sup>38</sup> The English common law featured many *qui tam* provisions, some of which traveled across the Atlantic to be incorporated into the American legal system.<sup>39</sup> Such provisions enable the government to “enlist the aid of private individuals” in its prosecution efforts<sup>40</sup> by incentivizing the latter with monetary awards, which thereby “alleviat[es] the government’s need to pursue” these actions alone<sup>41</sup> and allows the government to conserve its resources.

Presently, three other *qui tam* statutes in addition to § 292 remain in force in American law, all of which Congress enacted over 100 years ago.<sup>42</sup> Many challengers have questioned the constitutionality of such statutes on various grounds that are beyond the scope of this note.<sup>43</sup> The *qui tam* pro-

35. See 35 U.S.C. § 292; see also S. REP. NO. 82-1979, at 31 (1952), reprinted in 1952 U.S.C.C.A.N. 2394, 2424 (“The minimum fine [under 35 U.S.C. § 50] . . . is replaced [in 35 U.S.C. § 292] by a higher maximum.”).

36. See 35 U.S.C. § 292(b).

37. Eric S. Askanase, Note, *Qui Tam and the False Claims Act: Criminal Punishment in Civil Disguise*, 70 DEF. COUNS. J. 472, 472 (2003).

38. See Richard A. Bales, *A Constitutional Defense of Qui Tam*, 2001 WIS. L. REV. 381, 385 (2001).

39. See *Vt. Agency of Natural Res. v. U.S. ex rel. Stevens*, 529 U.S. 765, 774–77 (2000) (providing detailed history of *qui tam* statutes).

40. John C. Kunich, *Qui Tam: White Knight or Trojan Horse*, 33 A.F. L. REV. 31, 32 (1990).

41. *Haynes v. R.H. Dyck, Inc.*, No. 2:06-CV-02944-MCE-EFB, 2007 WL 3010574, at \*3 (E.D. Cal. Oct. 15, 2007).

42. See *Vt. Agency*, 529 U.S. at 768–69 n.1 (listing 25 U.S.C. § 81 (contracting with Indians), 25 U.S.C. § 201 (Indian protection provision), and 31 U.S.C. § 3729 *et seq.* (False Claims Act)). See also *infra* Part III.A for further discussion of the False Claims Act.

43. See *Stauffer v. Brooks Bros., Inc.*, 619 F.3d 1321, 1325 (Fed. Cir. 2010) (holding that *qui tam* plaintiff had Article III standing under 35 U.S.C. § 292); *Vt. Agency*, 529 U.S. at 787 (holding that *qui tam* plaintiff had Article III standing under False Claims Act); DOYLE, *supra* note 2, at 23–32 (discussing constitutional concerns surrounding *qui tam* statutes generally); Bales, *supra* note 38, at 395–435 (discussing constitutional challenges to *qui tam* statutes). In February 2011, a federal district court held that the *qui tam* provision of § 292 violates the Take Care Clause of the U.S. Constitution. See Unique



vision of § 292 involves the public in the government's fight against false marking, a practice which negatively impacts society for the reasons discussed below.

#### *D. Policy Rationales Underlying Patent Marking Statutes*

Patentees have a significant incentive to mark their products with valid patent numbers. Specifically, under 35 U.S.C. § 287, patentees can recover damages for infringement *only* if they provided notice of their patents to the public by marking their patented products or if they directly notified accused infringers of their patents.<sup>44</sup> In any event, patentees can recover only those infringement damages that occurred *after* they provided notice of their patents to the infringing party.<sup>45</sup>

Marking is important for furthering the aims of patent law. As the Supreme Court stated, "The federal patent system . . . embodies a carefully crafted bargain for encouraging the creation and disclosure of new, useful, and nonobvious advances in technology and design in return for the exclusive right to practice the invention for a period of years."<sup>46</sup> By marking their products, patentees "provide[] a basis for the public to ascertain the status of the intellectual property embodied in [an] article in general circulation."<sup>47</sup> Because there is an "important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain,"<sup>48</sup> patent marking serves to clearly delineate those inventions that are off-limits to the public and thereby prevents "innocent infringement."<sup>49</sup>

Product Solutions, Ltd. v. Hy-Grade Valve, Inc., No. 5:10-CV-1912, 2011 WL 649998, at \*6-\*7 (N.D. Ohio Feb. 23, 2011), *aff'd* No. 5:10-CV-1912, 2011 WL 924341 (N.D. Ohio Mar. 14, 2011) (finding that "the government lacks sufficient control to enable the President to 'take care that the Laws be faithfully executed'" with respect to § 292 because the "statute essentially represents a wholesale delegation of criminal law enforcement power to private entities with no control exercised by the Department of Justice"). The issue is currently pending before the Federal Circuit. *See U.S. ex rel. FLFMC, LLC v. Wham-O, Inc.* (Case No. 2011-1067).

44. *See* 35 U.S.C. § 287 (2006). Note that § 287 does not apply to method or process claims because "ordinarily . . . there is nothing to mark" with respect to the patented inventions covered by such claims. *Am. Med. Sys., Inc. v. Med. Eng'g Corp.*, 6 F.3d 1523, 1538-39 (Fed. Cir. 1993) ("Where the patent contains both apparatus and method claims, however, to the extent that there is a tangible item to mark by which notice of the asserted method claims can be given, a party is obliged to do so if it intends to avail itself of the constructive notice provisions of section 287(a).").

45. *See* 35 U.S.C. § 287 (2006).

46. *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 150-51 (1989).

47. *Id.* at 161.

48. *Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969).

49. *Wine Ry. Appliance Co. v. Enterprise Ry. Equip. Co.*, 297 U.S. 387, 394 (1936).

Accordingly, *false* marking unpatented articles disrupts the informing function that marking is intended to serve. Section 292 thus “penalize[s] those who would palm off upon the public unpatented articles, by falsely and fraudulently representing them to have been patented.”<sup>50</sup> False marking has many negative consequences. Firstly, “[a]cts of false marking deter innovation and stifle competition in the marketplace” by making potential competitors believe that someone has already patented their innovation, thereby causing them to abandon their work to avoid infringing another’s patent.<sup>51</sup> Moreover, false marking “increases the cost to the public of ascertaining” whether a patentee actually holds a monopoly on the intellectual property embodied in the marked product.<sup>52</sup> Finally, the public might assume upon seeing the word “patented” on an article that “[the item] has some peculiar value or merit sufficient to induce the government . . . to give the inventor the exclusive right to make and vend [it].”<sup>53</sup> Thus, false marking may give the artificial impression that an article is somehow “more useful or desirable” than other articles that are not similarly marked.<sup>54</sup>

Clearly, the false-marking statute serves an important function in society. There is no question that egregious acts of false marking should be prosecuted. However, this prosecution must be carried out under an appropriate burden of proof.

### *E. Burdens of Proof Generally*

Burdens of proof serve important functions in our legal system. First, they “represent[] an attempt to instruct the fact-finder concerning the degree of confidence our society thinks he should have in the correctness of factual conclusions for a particular type of adjudication.”<sup>55</sup> Second, they “serve[] to allocate the risk of error between the litigants and to indicate the relative importance attached to the ultimate decision.”<sup>56</sup> Third, they reflect “the wide difference in the purpose, the character, and [the] situation of the

50. *Calderwood v. Mansfield*, 71 F. Supp. 480, 482 (N.D. Cal. 1947) (discussing an earlier version of the false-marking statute).

51. *Forest Grp., Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1302–03 (Fed. Cir. 2009).

52. *Clontech Labs., Inc. v. Invitrogen Corp.*, 406 F.3d 1347, 1356–57 (Fed. Cir. 2005).

53. *Oliphant v. Salem Flouring Mills Co.*, 18 F. Cas. 647, 647–48 (D. Or. 1878) (No. 10,486).

54. *Id.* at 648.

55. *In re Winship*, 397 U.S. 358, 370 (1970) (Harlan, J., concurring).

56. *Addington v. Texas*, 441 U.S. 418, 423 (1979).

parties, and . . . the natural effects of findings and judgments against the defendants in controversies, civil and criminal.”<sup>57</sup>

Over time, American law developed a continuum of three standards of proof for different types of cases.<sup>58</sup> Ranging from least to most stringent, these standards are: preponderance of the evidence, clear and convincing evidence, and beyond a reasonable doubt.<sup>59</sup>

### 1. Preponderance of the Evidence

The preponderance standard typically applies to civil disputes between private parties.<sup>60</sup> The standard is appropriate when one party seeks monetary compensation from the other, as opposed to punishment.<sup>61</sup> Moreover, the standard is best-suited to cases where litigants are “nearly equal in resources, advantages, and situation.”<sup>62</sup> Because the preponderance standard allocates the risk of error *equally* among litigants, it is appropriate only when “society has a minimal concern with the outcome” of the suit.<sup>63</sup>

### 2. Clear and Convincing Evidence

The clear and convincing standard—located between the purely civil and criminal burdens of proof on the continuum—often applies when defendants in civil cases face allegations of “fraud or some other quasi-criminal wrongdoing.”<sup>64</sup> In essence, “[t]he interests at stake in those cases are deemed to be more substantial than mere loss of money,” particularly because the defendant stands to have his “reputation tarnished erroneously.”<sup>65</sup> The preponderance standard would be inappropriate in such cases because “[an] individual should not be asked to share equally with society the risk of error when the possible injury to the individual is significantly greater than any possible harm to the state.”<sup>66</sup>

57. *United States v. Shapleigh*, 54 F. 126, 129 (8th Cir. 1893); *see also Winship*, 397 U.S. at 370–72 (Harlan, J., concurring) (discussing view that different burdens of proof reflect varying consequences of fact-finder making an erroneous factual conclusion in particular type of case).

58. *See Addington*, 441 U.S. at 423.

59. *See id.* at 423–24.

60. *Id.* at 423.

61. *See Shapleigh*, 54 F. at 129.

62. *Id.*

63. *Addington*, 441 U.S. at 423.

64. *Id.* at 424.

65. *Id.*

66. *Id.* at 427.

### 3. Beyond a Reasonable Doubt

Beyond a reasonable doubt—the strictest standard—applies in criminal cases where “[t]he accused . . . has at stake interest of immense importance, both because of the possibility that he may lose his liberty upon conviction and because of the certainty that he would be stigmatized by the conviction.”<sup>67</sup> In such cases, “the risk of error to the individual must be minimized,” even at the expense of allowing some guilty individuals to go free.<sup>68</sup> Because typical criminal cases involve governmental prosecution of an individual, the parties generally possess significantly unequal resources, and it would be unfair to allocate the risk of error equally amongst them.<sup>69</sup> Moreover, the reasonable doubt standard “command[s] the respect and confidence of the community in applications of the criminal law” because it—as compared to the less strict standards—better assures society that innocent people are not being convicted of serious crimes.<sup>70</sup> In short, the reasonable doubt standard is required in a criminal case where:

[The] purpose is punishment, not compensation, for injury; its prosecutor is the state; the result to the defendant of its successful prosecution is irreparable loss of character, and the loss of either life, liberty, or property; and . . . the presumption is that every man is innocent until the contrary appears.<sup>71</sup>

This note argues that the clear and convincing standard—as opposed to the preponderance standard, which is presently endorsed by the Federal Circuit—best complies with due process requirements by safeguarding the significant interests of false-marking defendants while also promoting the government’s purpose in deterring and punishing the practice of false marking.

## II. JUDICIAL TREATMENT OF THE FALSE-MARKING STATUTE

### A. *Historical Disagreements*

Throughout American history, courts have largely disagreed about which standard of proof should apply to the false-marking statutes. Some

67. *In re Winship*, 397 U.S. 358, 363 (1970).

68. *Addington*, 441 U.S. at 428.

69. *United States v. Shapleigh*, 54 F. 126, 129 (8th Cir. 1893) (noting “the inequality of the parties in power, situation, and advantage in criminal cases where the government, with its unlimited resources, trained detectives, willing officers, and counsel learned in the law” prosecutes “a single defendant, unfamiliar with the practice of the court, unacquainted with their officers or attorneys, often without means, and frequently too terrified to make a defense if he had one, while his character and his life, liberty, or property rested upon the result of the trial”).

70. *Winship*, 397 U.S. at 364.

71. *Shapleigh*, 54 F. at 129.

courts interpreted these provisions to be criminal in nature and therefore required plaintiffs to prove their case beyond a reasonable doubt. For example, the *Nichols v. Newell* court ruled that under the 1842 false-marking statute, "[t]he burden of proof [was] upon the plaintiff, to satisfy [the jury], beyond a reasonable doubt, of such facts as are necessary to constitute the offense."<sup>72</sup> Moreover, the court explained the notion of "intent to deceive" using criminal law concepts, such as offering the example of a man firing a loaded gun at another man to show "[t]he general rule . . . that a man is to be held to intend that which is the necessary consequence of his acts."<sup>73</sup> In its charge to the jury, the *Nichols* court also employed criminal law terminology, such as "guilty," "not guilty," "acquit," and "innocent."<sup>74</sup> Likewise, in *Tompkins v. Butterfield*—a later case interpreting the 1870 false-marking statute—the court ruled that "the offense must be proved by evidence that leaves upon the minds of the jury no reasonable doubt that the penalty has been incurred."<sup>75</sup> After recognizing that the statute "imposes a penalty . . . and it therefore becomes in its nature a criminal proceeding," the court reasoned that "[i]n an ordinary criminal prosecution it is not sufficient to go only so far as to establish a preponderance of the evidence in favor of the government."<sup>76</sup>

Although not case law, an 1896 law review article provides one nineteenth-century scholar's perspective on the false-marking statute. The author asserted that "in order to prevail [the false-marking plaintiff] must prove beyond a reasonable doubt that the marks were affixed to unpatented articles by the defendant, that they were so affixed with intent to deceive the public, and that the articles were unpatented."<sup>77</sup> Furthermore, the author argued that this elevated burden of proof played a role in deterring plaintiffs who sought only financial gain from filing false-marking suits:

It is clear, after a consideration of the cases under this statute, that the strictness of construction adopted by the courts, the heavy burden of proof which is imposed upon the informer, and the obvious difficulty of proving a fraudulent intent on the part of a defendant, combine to dissuade a person from undertaking the expense and trouble of litigation merely for the sake of plunder. Only a genuinely interested or inspired individual is likely to turn informer; and others are easily dissuaded from

72. *Nichols v. Newell*, 18 F. Cas. 199, 200 (D. Mass. 1853) (No. 10,245).

73. *Id.* at 201.

74. *See id.* at 200, 203.

75. *Tompkins v. Butterfield*, 25 F. 556, 558 (D. Mass. 1885).

76. *Id.* at 557–58.

77. Odin B. Roberts, *Actions Qui Tam Under the Patent Statutes of the United States*, 10 HARV. L. REV. 265, 269 (1896) (citing *Nichols* for support).

lodging complaint so soon as the true nature of their prospects is made clear to them.<sup>78</sup>

This point is certainly something to keep in mind when considering the vast number of false-marking suits filed today by plaintiffs who have suffered no competitive injury and instead seek massive awards for their minimal efforts of looking up patent numbers on the USPTO website.<sup>79</sup>

Despite this line of cases holding that false-marking claims required proof beyond a reasonable doubt, other courts interpreting historical false-marking provisions applied the mere preponderance standard. For instance, the *Hawloetz v. Kass* court held that the trial judge below properly refused to instruct the jury that the plaintiff had to prove his false-marking claim “with the same particularity and exactness as on the trial of an indictment” (i.e., beyond a reasonable doubt).<sup>80</sup> Interestingly, the *Hawloetz* court cited but did not distinguish *Nichols v. Newell*, although *Nichols* advocated the reasonable doubt standard.<sup>81</sup> In addressing why the reasonable doubt standard was inappropriate in the false-marking context, the *Hawloetz* court reasoned that “it is not apparent why the rules of criminal evidence should be imported into the trial of actions of debt for penalties, any more than in any other civil actions in which an issue of criminal conduct, such as arson, forgery, perjury, adultery, etc., may be involved.”<sup>82</sup> This excerpt demonstrates that the *Hawloetz* court actually recognized the inherent criminal aspects of false-marking claims, despite requiring the least stringent burden of proof.<sup>83</sup> Notably, this is the first of two historical false-marking cases cited by the Federal Circuit in *Pequignot v. Solo Cup Co.*<sup>84</sup>

The second case cited in *Pequignot* is *Hotchkiss v. Samuel Cupples Wooden-Ware Co.*<sup>85</sup> The *Hotchkiss* court instructed that under section 4901, “[t]o warrant a verdict in favor of the plaintiff on any particular count in the complaint it must be made to appear by a clear preponderance of evidence” that the defendant falsely marked a product for the purpose of

78. *Id.* at 274.

79. *See supra* Introduction, discussing trends in current false-marking litigation.

80. *Hawloetz v. Kass*, 25 F. 765, 765 (S.D.N.Y. 1885) (interpreting section 4901, discussed *supra* Part I.A.2).

81. *See id.* at 766.

82. *Id.* at 767.

83. In particular, the court’s inclusion of false-marking claims among other “civil actions in which an issue of criminal conduct . . . may be involved” seems to characterize false marking as a *quasi-criminal* act. *Id.* at 767.

84. *See Pequignot v. Solo Cup Co.*, 608 F.3d 1356, 1363–64 (Fed. Cir. 2010).

85. *See id.* at 1364.

deceiving the public.<sup>86</sup> However, the court provided no further explanation for its application of the preponderance standard.<sup>87</sup>

Despite the apparent conflict among courts regarding whether a civil or criminal burden of proof should apply to false-marking claims, many courts agreed that the false-marking statutes were *penal* in nature. For instance, the *Pentlarge v. Kirby* court referred to section 4901 as a “highly penal” statute that had to be “construed strictly.”<sup>88</sup> Likewise, the *London v. Everett H. Dunbar Corp.* court described section 4901 as “not compensatory, but penal,” and referred to the statute’s penalty as a “pecuniary punishment.”<sup>89</sup> The *Newgold v. American Electrical Novelty and Manufacturing Co.* court distinguished the “penalty” imposed under section 4901 from remedial or compensatory damages that arise in other civil causes of action by pointing out that “[s]ection 4901 . . . not only describes the recovery as a penalty, . . . but seems to contemplate only the deceit of the public and the public wrong.”<sup>90</sup> As a final example, the *Brose v. Roebuck and Co.* court asserted that the plaintiff’s “failure to prove *any one* of the [elements of a false-marking claim under § 292] would have proved fatal to his cause since the Act is penal in nature and must be strictly construed.”<sup>91</sup>

Other courts acknowledged the penal nature of the false-marking statutes while simultaneously denying that the statutes were criminal.<sup>92</sup> For instance, the *Sippit Cups, Inc. v. Michael’s Creations, Inc.* court noted a “clear distinction between the word ‘penal’ . . . and the word ‘criminal’” before concluding that “an action under Section 292 of the Patent Act, which may lead to the imposition of a penalty, is not a criminal cause.”<sup>93</sup> Similarly, the *Filmon Process Corp. v. Spell-Right Corp.* court rejected the defendant’s argument that double jeopardy applied to false-marking judgments because “§ 292(b), while penal, is not a criminal statute.”<sup>94</sup> The court reasoned that “[§ 292] is designed to protect the exclusiveness of the

86. *Hotchkiss v. Samuel Cupples Wooden-Ware Co.*, 53 F. 1018, 1021 (E.D. Mo. 1891).

87. *See id.*; *see also* *Graffius v. Weather-Seal*, 165 F.2d 782, 782 (6th Cir. 1948) (ruling—without citing any legal authority—that plaintiffs must prove the elements of a false-marking claim under section 4901 “by the weight of the evidence”).

88. *Pentlarge v. Kirby*, 19 F. 501, 503 (S.D.N.Y. 1884).

89. *London v. Everett H. Dunbar Corp.*, 179 F. 506, 508 (1st Cir. 1910).

90. *Newgold v. Am. Elec. Novelty & Mfg. Co.*, 108 F. 341, 344 (S.D.N.Y. 1901).

91. *Brose v. Roebuck & Co.*, 455 F.2d 763, 765 (5th Cir. 1972) (emphasis in original).

92. *But see* *Haynes v. R.H. Dyck, Inc.*, No. 2:06-CV-02944-MCE-EFB, 2007 WL 3010574, at \*2–\*3 (E.D. Cal. Oct. 15, 2007) (holding that “claims brought under section 292 are not extinguished upon the death of the party,” thereby implying that § 292 claims are *not* penal in nature, given the “well-settled rule that actions upon penal statutes do not survive the death of a party”) (quotation and citation omitted).

93. *Sippit Cups, Inc. v. Michael’s Creations, Inc.*, 180 F. Supp. 58, 61 (E.D.N.Y. 1960).

94. *Filmon Process Corp. v. Spell-Right Corp.*, 404 F.2d 1351, 1355 (D.C. Cir. 1968).

use of the invention granted to the patentee” and thus “as a practical matter, the patentee is the only likely enforcer of it, as recovery requires proof that the statements were made without his consent.”<sup>95</sup> Accordingly, the court concluded that “the statute’s remedial purposes outweigh the conceptual difficulties posed by the ostensibly non-compensatory character of the penalty relief awarded.”<sup>96</sup> One commentator criticized the *Filmon* court for “focus[ing] only on the perceived remedial nature of the statute to the *patentee* when someone unlawfully marks its products with the patentee’s patent[] [numbers],”<sup>97</sup> an act which implicates the first paragraph of § 292 but does not address the rest of the statute.<sup>98</sup> The commentator asserted that the *Filmon* court’s characterization of § 292 as remedial “falls flat” for the “scenario where the patentee is accused of having falsely marked its products with its *own* patent numbers,” the practice treated in this note.<sup>99</sup>

Although this historical survey fails to resolve which burden of proof should apply to § 292, it does indicate that many courts traditionally perceived the false-marking statutes to be distinct from typical civil statutes lacking the same penal character. This observation impacts the due process analysis below because the Supreme Court ruled that when a statutory sanction “has *historically* been regarded as a punishment,” this weighs in favor of finding that the statute is “punitive,” thereby implicating Due Process Clause protections.<sup>100</sup> Against this background, however, the Federal Circuit adopted the preponderance standard—which usually applies in ordinary civil suits—for proving claims under § 292.

### B. The Federal Circuit’s Interpretation

The Federal Circuit, established in 1982,<sup>101</sup> first treated § 292 in 1986 when it decided *Arcadia Machine & Tool Inc. v. Sturm, Ruger & Co., Inc.* In that case, however, the court stated only that the plaintiff “totally failed . . . to produce any evidence of intent to deceive the public,” without discussing the relevant burden of proof.<sup>102</sup> It was not until 2005 when the Federal Circuit decided *Clontech Laboratories, Inc. v. Invitrogen Corp.*

95. *Id.*

96. *Id.*

97. Robert A. Matthews, *Different suits by different plaintiffs on same alleged acts of false marking*, 5 ANNOTATED PATENT DIGEST § 34:103.50 (2011) (emphasis in original) (Westlaw).

98. See *supra* note 33 for text of § 292(a).

99. Matthews, *supra* note 97 (emphasis added).

100. *Kennedy v. Mendoza-Martinez*, 372 U.S. 144, 168 (1963) (emphasis added).

101. See *MERGES & DUFFY, supra* note 3.

102. *Arcadia Machine & Tool Inc. v. Sturm, Ruger & Co., Inc.*, 786 F.2d 1124, 1125 (Fed. Cir. 1986).



that the court first ruled—without citing any legal authority—that “in order to establish knowledge of falsity the plaintiff must show by a *preponderance of the evidence* that the party accused of false marking did not have a reasonable belief that the articles were properly marked.”<sup>103</sup> Furthermore, the court explained that § 292 was not a strict-liability statute, such that an act of false marking would automatically amount to deceptive intent.<sup>104</sup> Rather, under § 292, “Intent to deceive is a state of mind arising when a party acts with sufficient knowledge that what it is saying is not so and consequently that the recipient of its saying will be misled into thinking that the statement is true.”<sup>105</sup> Four years later in *Forest Group, Inc. v. Bon Tool Co.*, the Federal Circuit again endorsed the preponderance standard, citing *Clontech* as its only supporting authority.<sup>106</sup>

The Federal Circuit’s unexplained application of the preponderance standard to the false-marking statute is confusing for three reasons. First, the available legislative history for § 292 is scant, but clearly acknowledges the criminal nature of the statute. In particular, the Senate Report for the 1952 Patent Act—under which Congress enacted § 292—states, “Section 292 is a criminal statute . . . . This is a criminal provision. . . . The informer action is included as additional to an ordinary criminal action.”<sup>107</sup> The preponderance standard, which is typically reserved for civil causes of action,<sup>108</sup> seems inappropriate when applied to a provision that the Senate expressly deemed criminal.

Second, the Federal Circuit relied on criminal law concepts to further interpret “intent to deceive” after *Clontech*. In *Pequignot v. Solo Cup Co.*, the court held that “the combination of a false [marking] and knowledge that the [marking] was false creates a rebuttable presumption [that the defendant acted with] intent to deceive the public.”<sup>109</sup> The court then ana-

103. *Clontech Labs., Inc., v. Invitrogen Corp.*, 406 F.3d 1347, 1352–53 (Fed. Cir. 2005) (emphasis added).

104. *See id.* at 1352.

105. *Id.*

106. *See Forest Grp., Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1300 (Fed. Cir. 2009).

107. S. REP. NO. 82-1979, at 9, 22 (1952), *reprinted in* 1952 U.S.C.A.N. 2394, 2403, 2424.

108. *See discussion supra* Part I.E.1.

109. *Pequignot v. Solo Cup Co.*, 608 F.3d 1356, 1362–63 (Fed. Cir. 2010). The Federal Circuit further held that defendants can rebut this presumption by showing—also by a preponderance—that they did *not* act with a deceptive purpose. *See id.* at 1364. In *Pequignot*, the court found that the defendant, Solo Cup, sufficiently rebutted the presumption of intent that arose when Solo Cup knowingly marked its products with expired patent numbers. *See id.* Solo Cup achieved this by presenting evidence that “a wholesale replacement of [its] mold cavities [featuring the expired numbers] would be costly and burdensome.” *Id.* at 1359. Furthermore, Solo Cup showed that it received advice from its legal counsel asserting that the company’s proposed policy of eliminating expired patent numbers from replacement mold cavities over time was permissible under § 292. *See id.* Accordingly, the court found

lyzed the notion of intent under the criminal law principles of “purpose” and “knowledge,” and even cited a Supreme Court decision about intentional homicide for the proposition that a “conclusive presumption regarding intent in the criminal context [is] unconstitutional.”<sup>110</sup> It seems strange that the Federal Circuit advocated a civil burden of proof for § 292, given that the court had to rely on criminal law concepts to explain operation of the statute.

Third, even after conceding that “[t]he bar for proving deceptive intent [under § 292] is particularly high, given that the false marking statute is a criminal one” and noting that “in civil cases, intent to deceive often requires clear and convincing evidence,” the Federal Circuit in *Pequignot* confusingly reiterated its *Clontech* holding that the lowest possible evidentiary standard applied to § 292.<sup>111</sup> Therefore, the Federal Circuit has thus far offered a less-than-satisfactory analysis for its ruling that plaintiffs must prove false-marking claims under § 292 by a mere preponderance of the evidence.<sup>112</sup> As demonstrated below, policy and due process considerations necessitate a higher burden of proof for § 292 than the Federal Circuit chose to adopt.

### III. BURDENS OF PROOF IN ANALOGOUS LEGAL CONTEXTS

An investigation of the burdens of proof applied in analogous legal contexts supports elevating the burden of proof as to § 292. First, the history of the False Claims Act—one of four remaining *qui tam* statutes in the United States<sup>113</sup>—reveals that a lower burden of proof correlates to increased filings of *qui tam* lawsuits, which has implications for the current trend among false-marking filings. Second, the rationales for requiring clear and convincing evidence to prove intent to deceive in connection with common-law fraud and inequitable conduct also apply to § 292.

that Solo’s “true intent” was to “reduce costs and business disruption,” rather than deceive the public with its false markings. *Id.* at 1364.

110. *Id.* at 1363 (citing *Sandstrom v. Montana*, 442 U.S. 510 (1979)).

111. *Id.* at 1363. The Federal Circuit provided only one clue to explain its application of the preponderance standard to § 292: reference to two nineteenth-century cases that also applied this low evidentiary burden to previous incarnations of the false-marking statute—namely, *Hawloetz v. Kass* and *Hotchkiss v. Samuel Cupples Wooden-Ware Co.*, both discussed *supra* in Part II.A. *See id.* at 1363–64.

112. *See Unique Product Solutions, Ltd. v. Hy-Grade Valve, Inc.*, No. 5:10-CV-1912, 2011 WL 924341, at \*3 (N.D. Ohio Mar. 14, 2011) (describing the “confusing nature of [§ 292]” in light of the Federal Circuit’s analysis of the statute).

113. *See Vt. Agency of Natural Res. v. U.S. ex rel. Stevens*, 529 U.S. 765, 768–69 n.1 (2000) (listing 25 U.S.C. § 81 (contracting with Indians), 25 U.S.C. § 201 (Indian protection provision), and 31 U.S.C. § 3729 *et seq.* (False Claims Act)).

### A. *The False Claims Act*

The False Claims Act (FCA), 31 U.S.C. § 3729 *et seq.*, is analogous to the false-marking statute because it also contains a *qui tam* provision.<sup>114</sup> The FCA imposes a “civil penalty” of up to \$10,000 and treble damages upon “any person who,” *inter alia*, “knowingly presents, or causes to be presented, . . . a false or fraudulent claim for payment or approval” to the U.S. government.<sup>115</sup> Either the government, itself, may bring a civil FCA claim under 31 U.S.C. § 3730(a),<sup>116</sup> or a private citizen (known as a “relator”) may bring a *qui tam* civil action under § 3730(b)(1).<sup>117</sup>

#### 1. Historical Purpose of the FCA

Congress enacted the first false-claims statute in 1863 “to combat rampant fraud and price gouging in procurement contracts during the [American] Civil War.”<sup>118</sup> Through the *qui tam* provision, Congress incentivized private citizens to bring false-claims suits and thereby created “a veritable citizens’ army [that] would join in the struggle to root out fraud against the United States and replenish the sovereign’s coffers.”<sup>119</sup> Recognizing that frivolous *qui tam* lawsuits might result from the prospect of monetary awards, the 1863 Act required relators to bear the costs of false-claims lawsuits.<sup>120</sup> One contemporary senator cleverly described the *qui tam* provision as sending “a rogue to catch a rogue.”<sup>121</sup>

#### 2. 1986 Amendments to the FCA

In 1943, Congress amended the FCA primarily to bar “parasitic [*qui tam*] suits” in which the government already knew of a particular fraudulent claim.<sup>122</sup> This amendment caused a significant reduction in the number

114. See 35 U.S.C. § 292(b) (2006) (*qui tam* provision of the patent false-marking statute).

115. 31 U.S.C. § 3729(a) (2006).

116. See 31 U.S.C. § 3730(a) (2006) (“If the Attorney General finds that a person has violated or is violating section 3729, the Attorney General may bring a civil action under this section against the person.”).

117. See 31 U.S.C. § 3730(b)(1) (2006) (“A [private] person may bring a civil action for a violation of section 3729 for the person and for the United States Government. The action shall be brought in the name of the Government. The action may be dismissed only if the court and the Attorney General give written consent to the dismissal and their reasons for consenting.”).

118. Troy D. Chandler, Note, *Lawyer Turned Plaintiff: Law Firms and Lawyers as Relators Under the False Claims Act*, 35 HOUS. L. REV. 541, 543 (1998).

119. Kunich, *supra* note 40.

120. See Chandler, *supra* note 118, at 544.

121. *Id.*

122. Kunich, *supra* note 40.

of *qui tam* suits filed under the Act in the subsequent decades.<sup>123</sup> As a result, Congress enacted further amendments in 1986 to “significantly sharpen[] the teeth of the FCA and [make] it easier for FCA suits to be prosecuted successfully.”<sup>124</sup> The 1986 amendments changed the FCA considerably by raising the civil penalties, increasing the rewards for *qui tam* relators, altering the relationship of the government and relators by shifting the parties’ responsibilities, liberalizing the knowledge required for liability, and—most notably here—lowering the burden of proof for the elements of an FCA violation to *preponderance of the evidence*.<sup>125</sup> After the 1986 amendments, the number of *qui tam* suits brought under the FCA skyrocketed, largely due to the increased damages awards and the reduced burden of proof.<sup>126</sup>

### 3. The FCA and the Preponderance Standard

Although at least one court in the late nineteenth century applied the reasonable doubt standard to a claim brought under the then-existing false-claims statute,<sup>127</sup> in the years leading up to the 1986 amendments, courts more commonly disagreed about whether to apply the preponderance standard or the clear and convincing standard to the FCA.<sup>128</sup> Courts that adopted the more stringent standard justified this practice on two grounds: first, “the ‘gravamen’ of the statute was fraud,” and thus “FCA plaintiff[s] [were] held to the burden of proof in common law fraud suits”; and second, the FCA was penal and therefore required an elevated burden of proof.<sup>129</sup>

123. See *id.* at 33.

124. *Id.*

125. See Askanase, *supra* note 37, at 473–74; see also 31 U.S.C. § 3731(c) (2006) (“In any action brought under section 3730, the United States shall be required to prove all essential elements of the cause of action, including damages, by a preponderance of the evidence.”).

126. See Frank Lasalle, Comment, *The Civil False Claims Act: The Need for a Heightened Burden of Proof as a Prerequisite for Forfeiture*, 28 AKRON L. REV. 497, 501–02 (1995) (“Since the 1986 amendments were enacted, the number of *qui tam* suits has risen dramatically, from 12 suits in fiscal year 1987 to 220 suits in fiscal year 1994. As a result of this rise in the number of suits brought the Government had recovered roughly \$800 million through *qui tam* and whistle-blower litigation by the end of fiscal year 1994. The Department of Justice reported that it recovered a total of \$1.09 billion from civil fraud litigation in fiscal year 1994 alone.”).

127. See *United States v. Shapleigh*, 54 F. 126, 134 (8th Cir. 1893) (“While civil in form, all [of the suit’s] other characteristics were those of a criminal case; its prosecutor was the government; its purpose was punishment; the defendant’s conviction of a felony was essential to the plaintiff’s recovery; the defendant’s character and property were in jeopardy, because the government sought to punish him in this suit; and the verdict and judgment here would be a bar to any criminal prosecution for the same offense. The case became a criminal case under the cloak of a civil suit, and the reason of the rule required, and the decisions of the supreme court warranted, the application to it of the rule that the plaintiff must establish its case by proof beyond a reasonable doubt.”).

128. See LaSalle, *supra* note 126, at 509–11.

129. *Id.* at 510.

Ultimately, however, Congress did not follow this line of reasoning and instead selected the preponderance standard for the FCA.<sup>130</sup> A Senate Report addressing the 1986 amendments sheds light on Congress' reasoning:

Inasmuch as False Claims Act proceedings are civil and remedial in nature and are brought to recover compensatory damages, the Committee believes that the appropriate burden of proof devolving upon the United States in a civil False Claims Act suit is by a preponderance of the evidence. . . . [N]otwithstanding the fact that the act permits a treble recovery, it would be governed by the traditional civil burden of proof.<sup>131</sup>

In short, Congress adopted the preponderance standard because it believed the FCA was not penal in nature and that suits brought under the Act were comparable to ordinary civil suits.<sup>132</sup>

#### 4. Lessons to be Learned from the FCA

The history of the 1986 amendments to the False Claims Act clearly demonstrates that the combination of a provision offering *qui tam* plaintiffs large monetary rewards and a low burden of proof results in an increased number of *qui tam* filings. The same situation presently exists in the patent false-marking context as a result of the Federal Circuit's decisions mandating that the \$500 penalty under § 292 applies on a per-article basis<sup>133</sup> and setting a low burden of proof for false-marking claims.<sup>134</sup> However, whereas Congress intended to create this flood of *qui tam* suits under the FCA by enacting its 1986 amendments, Congress arguably did not intend for § 292 to be used in this way. Two observations support this argument. First, Congress selected the preponderance standard for proving claims under the FCA,<sup>135</sup> whereas the *Federal Circuit* adopted the same standard for § 292 claims without any apparent congressional endorsement.<sup>136</sup> Second, "[u]nlike false claims against the government, misuse of a patent marking does not involve a *proprietary* injury to the United States," but

130. See 31 U.S.C. § 3731(c).

131. S. REP. NO. 99-345, at 31 (1986), reprinted in 1986 U.S.C.C.A.N. 5266, 5296.

132. One commentator has argued that the preponderance standard as applied to the FCA violates the Due Process Clause of the Fifth Amendment. See LaSalle, *supra* note 126, at 518-532 (arguing that the Due Process Clause of the Fifth Amendment demands a higher burden of proof—namely the clear and convincing standard—to be applied to the FCA as a penal statute).

133. See *Forest Grp., Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1304 (Fed. Cir. 2009).

134. See *Clontech Labs., Inc. v. Invitrogen Corp.*, 406 F.3d 1347, 1352-53 (Fed. Cir. 2005); see also Michael R. O'Neill, *False Patent Marking Claims: The New Threat to Business*, 22 INTELL. PROP. & TECH. LAW J. 22, (2010) (noting rareness of false marking claims under § 292 historically and arguing that prior to *Forest Group*, "even those parties that suffered some actual injury as a result of a competitor's false patent marking had little incentive to file suit and incur the fees and costs associated with litigation").

135. See 31 U.S.C. § 3731(d); see also discussion *supra* Part III.A.2.

136. See *Clontech*, 406 F.3d at 1352-53.

rather only an injury to its *sovereignty*.<sup>137</sup> Accordingly, the government does not have the same financial interest under § 292 as it does under the FCA to encourage *qui tam* plaintiffs—who have likely suffered no competitive injury, themselves—to file suits seeking enormous awards.<sup>138</sup> Therefore, common sense dictates that either reducing the penalty or raising the burden of proof with respect to § 292 would quell the number of frivolous false-marking suits presently being filed by bounty-seeking *qui tam* plaintiffs.

### B. Other Claims Requiring Proof of Intent to Deceive

To prove false-marking claims under § 292, plaintiffs must show that the defendant acted with intent to deceive the public.<sup>139</sup> Analogously, plaintiffs claiming either common-law fraud or inequitable conduct must also prove that the defendant acted with intent to deceive. The fact that both of these latter claims require proof by *clear and convincing* evidence sheds further doubt on the appropriateness of the preponderance standard as applied to § 292.

#### 1. Common-Law Fraud

To establish a *prima facie* fraud claim under the common law, plaintiffs must generally show by clear and convincing evidence the following elements: “(1) false representation or concealment of a material fact; (2) reasonably calculated to deceive; (3) made with the *intent to deceive*; (4) resulting in injury or detrimental reliance.”<sup>140</sup> The clear and convincing standard is more appropriate than the preponderance standard in this con-

137. *Pequignot v. Solo Cup Co.*, 640 F. Supp. 2d 714, 728 (E.D. Va. 2009).

138. A bill was introduced in the U.S. House of Representatives in September 2010 that proposed amending § 292 such that the provision’s \$500 penalty would apply only “in the aggregate, for all offenses in connection with such articles,” thereby overturning *Forest Group Inc. v. Bon Tool Co.* and reducing *qui tam* plaintiffs’ potential awards under the statute. H.R. 6352, 111th Cong. (2010); see also H.R. 1249, 112th Cong. § 16(b) (2011) (proposing to limit damages recoverable under § 292(b) to those “adequate to compensate for the injury”). Also, in March 2011, the U.S. Senate passed a patent-reform bill that would amend § 292(b) such that only a “person who has suffered a competitive injury as a result of a violation of this section” could file a civil false-marking suit. S. 23, 112th Cong. § 2(k) (2011). The existence of these bills evidences displeasure in Congress surrounding the current false-marking climate.

139. See *Forest Grp., Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1300 (Fed. Cir. 2009).

140. 37 AM. JUR. 2D *Fraud and Deceit* § 475 (2010) (emphasis added); see also *Lalone v. United States*, 164 U.S. 255, 257 (1896) (“In all proceedings instituted to recover moneys, or to set aside and annul deeds or contracts or other written instruments, on the ground of alleged fraud practiced by a defendant upon a plaintiff, the rule is of long standing, and is of universal application, that the evidence tending to prove the fraud, and upon which to found a verdict or decree, must be clear and satisfactory. . . . A mere preponderance of evidence, which at the same time is vague or ambiguous, is not sufficient to warrant a finding of fraud, and will not sustain a judgment based on such finding.”).

text because defendants accused of fraud stand to have their “reputation[s] tarnished erroneously.”<sup>141</sup> The law recognizes preservation of one’s reputation as a significant interest and thus shifts the risk of error away from the defendant.<sup>142</sup> Notably, under Rule 9(b) of the Federal Rules of Civil Procedure, plaintiffs alleging fraud face a heightened pleading requirement.<sup>143</sup>

## 2. Inequitable Conduct

Accused patent infringers can challenge the enforceability of a patent-in-suit by arguing that the patentee committed inequitable conduct before the USPTO.<sup>144</sup> To establish inequitable conduct, the patent challenger must show by clear and convincing evidence that the patentee “(1) either made an affirmative misrepresentation of material fact, failed to disclose material information, or submitted false material information, and (2) *intended to deceive* the [USPTO].”<sup>145</sup> The Federal Circuit explained the need for an elevated standard of proof in this context:

[The] penalty for inequitable conduct is so severe, [i.e.,] the loss of the entire patent even where every claim clearly meets every requirement of patentability. . . . Just as it is inequitable to permit a patentee who obtained his patent through deliberate misrepresentations or omissions of material information to enforce the patent against others, it is also inequitable to strike down an entire patent where the patentee only committed minor missteps or acted with minimal culpability or in good faith.<sup>146</sup>

141. *Addington v. Texas*, 441 U.S. 418, 424 (1979).

142. *But see Grogan v. Garner*, 498 U.S. 279, 288–89 (1991) (suggesting that “[u]nlike a large number, and perhaps the majority, of the States, Congress has chosen the preponderance standard when it has created substantive causes of action for fraud,” as shown by the False Claims Act and other federal statutes listed therein). Note, however, that in the § 292 context, the Federal Circuit—not Congress—adopted the preponderance standard. *See Clontech Labs., Inc. v. Invitrogen Corp.*, 406 F.3d 1347, 1352–53 (Fed. Cir. 2005).

143. *See* FED. R. CIV. P. 9(b) (“In alleging fraud or mistake, a party must state with particularity the circumstances constituting fraud or mistake. Malice, intent, knowledge, and other conditions of a person’s mind may be alleged generally.”).

144. *See Kingsdown Med. Consultants, Ltd. v. Hollister Inc.*, 863 F.2d 867, 877 (Fed. Cir. 1988) (en banc) (“When a court has finally determined that inequitable conduct occurred in relation to one or more claims during prosecution of the patent application, the entire patent is rendered unenforceable.”).

145. *Scanner Techs. Corp. v. ICOS Vision Sys. Corp.*, 528 F.3d 1365, 1374 (Fed. Cir. 2008) (emphasis added) (quotation and citation omitted). Courts employ a two-step process to determine if a patentee has committed inequitable conduct. *See Baxter Int’l, Inc. v. McGaw, Inc.*, 149 F.3d 1321, 1327 (Fed. Cir. 1998). First, the trial court assesses the materiality of the information withheld by the patentee. *See id.* Next, the trial court determines “whether the evidence shows a threshold level of intent to mislead the PTO.” *Id.* This analysis involves a sliding-scale approach, such that “[t]he more material the omission, the less evidence of intent will be required in order to find that inequitable conduct has occurred,” and vice versa. *Id.*

146. *Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357, 1365–66 (Fed. Cir. 2008). Note that “[t]he court in exceptional [patent infringement] cases may award reasonable attorney fees to the prevailing party.” 35 U.S.C. § 285 (2006). The Federal Circuit indicated that cases in which patentees have committed inequitable conduct before the USPTO are “exceptional” under § 285. *See Taltech Ltd. v. Esquel Enters. Ltd.*, 604 F.3d 1324, 1328 (Fed. Cir. 2010). Therefore, patentees facing inequita-

Essentially, the court believed that allocating the risk of error equally among the litigants would be unjust in light of the weighty interests at stake for the defendant. This is true despite the fact that the “public [has] a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct.”<sup>147</sup> Finally, as with common-law fraud, inequitable conduct must be pled with particularity under Rule 9(b).<sup>148</sup>

### 3. Lessons to be Learned from Common-Law Fraud and Inequitable Conduct

The rationales for requiring clear and convincing evidence to prove inequitable conduct and common-law fraud apply with equal force to false-marking claims. First, just as a defendant’s reputation is on the line in a fraud action, a defendant’s *business* reputation is at stake in a false-marking action. Specifically, consumers who learn of the false-marking activity may believe that the defendant’s products are somehow of a lesser quality as a result of being falsely marked, and may therefore stop purchasing the products.<sup>149</sup> Second, while it is true that a person accused of false marking does not stand to lose any patent rights, unlike a patentee accused of inequitable conduct, both offenses may share similar consequences. Specifically, the loss of patent rights following a finding of inequitable conduct causes a financial impact—including lost licensing revenues, etc.—as well as a competitive impact, given that the patentee’s competitors can thereafter engage in lawful copying of the formerly patented invention. Both of these factors combined can put the former patentee out of business. Similarly, a

ble conduct allegations also stand to forfeit significant amounts of money in attorneys’ fees. *Walker Process* fraud, a cause of action related to inequitable conduct, originated in a Supreme Court case which held that “the enforcement of a patent procured by fraud on the Patent Office may be violative of § 2 of the Sherman Act,” such that “the treble damage provisions of § 4 of the Clayton Act would be available to an injured party.” *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 174 (1965). Given the possibility of treble damages, in order “[t]o demonstrate *Walker Process* fraud, a claimant must make higher threshold showings of both materiality and intent than are required to show inequitable conduct.” *Dippin’ Dots, Inc. v. Mosey*, 476 F.3d 1337, 1346 (Fed. Cir. 2007). Accordingly, the sliding scale of materiality and intent applied to inequitable conduct claims does not apply to *Walker Process* fraud claims, and *Walker Process* claimants must prove “that the patent would not have issued *but for* the patent examiner’s justifiable reliance on the patentee’s misrepresentation or omission.” *Id.* at 1347 (emphasis added).

147. *Precision Instrument Mfg. Co. v. Auto Maint. Mach. Co.*, 324 U.S. 806, 816 (1945).

148. See *Exergen Corp. v. Wal-Mart Stores, Inc.*, 575 F.3d 1312, 1327 (Fed. Cir. 2009) (“[W]e hold that in pleading inequitable conduct in patent cases, Rule 9(b) requires identification of the specific who, what, when, where, and how of the material misrepresentation or omission committed before the PTO.”).

149. See *Oliphant v. Salem Flouring Mills Co.*, 18 F. Cas. 647, 647–48 (D. Or. 1878) (No. 10,486) (discussing perceived quality and value of products covered by government-issued patents).



company that falsely marks its products in violation of § 292 may be forced to pay a substantial amount of money, perhaps enough to put it out of business. Therefore, the interests at stake for defendants accused of false marking may be quite similar to those of defendants facing fraud or inequitable-conduct claims.

Furthermore, the Federal Circuit recently held that false-marking plaintiffs are required to plead the elements of § 292 claims with particularity under Rule 9(b), which likewise applies to both common-law fraud and inequitable-conduct claims.<sup>150</sup> For these reasons alone, courts should apply the clear and convincing standard to § 292 claims. However, there exist further *constitutional* reasons why the burden of proof for § 292 should be raised above a mere preponderance.

#### IV. INSUFFICIENCY OF THE PREPONDERANCE STANDARD AS APPLIED TO PATENT FALSE MARKING UNDER THE DUE PROCESS CLAUSE

The final and most compelling reason why the burden of proof for false marking must be raised is that the preponderance standard is *constitutionally* insufficient here. Section § 292 is—at the very least—a quasi-criminal provision. Consequently, the Due Process Clause of the Fifth Amendment demands a stricter burden of proof in connection with false-marking claims.

##### A. Section 292 as a (Quasi-)Criminal Statute

The Supreme Court provided a two-factor test in *United States v. Ward* for determining whether a given statutory penalty is civil or criminal, a distinction of “constitutional import.”<sup>151</sup> The first factor asks “whether Congress, in establishing the penalizing mechanism, indicated either expressly or impliedly a preference for one label or the other.”<sup>152</sup> The second factor, which applies only “where Congress has indicated an intention to establish a civil penalty,” asks “whether the statutory scheme was so punitive either in purpose or effect as to negate that intention.”<sup>153</sup> Accordingly,

150. See *In re BP Lubricants USA Inc.*, Misc. No. 960, 2011 WL 873147, at \*2 (Fed. Cir. Mar. 15, 2011) (“In an analogous area of the law, namely, the False Claims Act, every regional circuit has held that a relator must meet the requirements of Rule 9(b) when bringing complaints on behalf of the government. . . . We see no sound reason to treat § 292 actions any differently.”). Notably, the plaintiff in this case was none other than Thomas Simonian, the “most prolific false marking plaintiff.” See *False Marking Plaintiff*, *supra* note 11.

151. *United States v. Ward*, 448 U.S. 242, 248 (1980).

152. *Id.*

153. *Id.* at 248–49.

the first *Ward* factor may be determinative where Congress indicated an intention to establish a criminal penalty.

Here, the language of the false-marking statute does not explicitly contain the word “criminal” or “civil.”<sup>154</sup> However, the legislative history of § 292 evidences that Congress (or at least the Senate) *expressly* intended for this to be a criminal provision.<sup>155</sup> Therefore, the first *Ward* factor weighs in favor of finding that the penalty under § 292 is criminal.

Even if the first *Ward* factor were not determinative—which it arguably is here—applying the second *Ward* factor to § 292 further supports the criminal nature of this provision. In *Ward*, the Court referenced a list of factors from its earlier decision in *Kennedy v. Mendoza-Martinez* that is “helpful” in applying the second *Ward* factor.<sup>156</sup> That list includes:

Whether the sanction involves an affirmative disability or restraint, whether it has historically been regarded as a punishment, whether it comes into play only on a finding of scienter, whether its operation will promote the traditional aims of punishment-retribution and deterrence, whether the behavior to which it applies is already a crime, whether an alternative purpose to which it may rationally be connected is assignable for it, and whether it appears excessive in relation to the alternative purpose assigned are all relevant to the inquiry, and may often point in differing directions.<sup>157</sup>

In a later case, the Court explained that when Congress “confer[s] authority upon administrative agencies”—as opposed to judicial bodies—to impose statutory penalties, this serves as “prima facie evidence” that Congress intended the penalties to be civil.<sup>158</sup>

Here, multiple *Kennedy* factors weigh in favor of finding that Congress created a *punitive* scheme in § 292.<sup>159</sup> First, in the past, many courts that addressed this issue deemed § 292 and its predecessor statutes to be either criminal or at least highly penal, which suggests that the false-

154. See 35 U.S.C. § 292 (2006). Compare 31 U.S.C. § 3729(a)(1) (establishing a “civil penalty” under the False Claims Act).

155. See S. REP. NO. 82-1979, at 9, 31 (1952), reprinted in 1952 U.S.C.C.A.N. 2394, 2403, 2424.

156. See *Ward*, 448 U.S. at 249 (noting that list of factors is “certainly neither exhaustive nor dispositive”).

157. *Kennedy v. Mendoza-Martinez*, 372 U.S. 144, 168–69 (1963).

158. *Hudson v. United States*, 522 U.S. 93, 103 (1997).

159. See Matthews, *supra* note 97 (analyzing whether the Double Jeopardy Clause of the Fifth Amendment applies to § 292 and concluding that “double jeopardy should preclude a defendant from being subjected to two penalties from two different § 292(b) suits based on the same alleged acts of patent false marking as both suits involve the ‘same offense’ punishable as a ‘criminal’ violation”). Matthews asserts that “[p]erhaps the strongest argument against finding that § 292 is a ‘criminal’ statute for purpose of double jeopardy arises from the burden of proof applied to these claims,” thereby suggesting the incongruence of the preponderance standard as applied to § 292—a seemingly criminal provision—by the Federal Circuit in *Clontech, Id.* This suggestion in Matthews’ article provided the inspiration for this note.

marking penalty has historically been regarded—at least in some courts—as a punishment.<sup>160</sup> Second, the § 292 penalty comes into play only after a finding of scienter, given that intent to deceive the public is a key element of the false-marking cause of action.<sup>161</sup> Third, § 292 exists to “punish[] the defendant for conduct that deceives the public regarding the patented status of the marked product and seeks to deter such behavior in the future.”<sup>162</sup> Fourth, “[w]hile unfair competition claims may provide compensation to competitors harmed by false marking, only § 292 makes certain acts of false marking criminal.”<sup>163</sup> Furthermore, the penalty under § 292 may be imposed only by a court of law, not by an administrative agency (such as the USPTO).<sup>164</sup> Finally, § 292 penalties do not compensate the government for damages it suffered directly as a result of the defendant’s alleged acts of false marking, which further supports the punitive nature of this statute.<sup>165</sup>

Therefore, under the Supreme Court’s tests, § 292 appears to impose a criminal rather than a civil penalty. However, one cannot overlook the fact that false-marking suits are nevertheless civil in form because they involve only private litigants.<sup>166</sup> In considering the repercussions of imposing criminal penalties in civil lawsuits, one court poetically summarized the problem by asking, “Is a wolf in sheep’s clothing a wolf or a sheep?”<sup>167</sup> Perhaps the best solution is to classify § 292 as a *quasi-criminal* provision, given its hybrid nature.<sup>168</sup> This classification does not change the fact that the preponderance standard as applied to § 292 is unconstitutionally low. The Supreme Court has held that “punishment cannot be imposed ‘without due process of law.’”<sup>169</sup> Because even a quasi-criminal statute is punitive, imposition of its statutory penalty must comply with due process. The preponderance standard as applied to § 292 simply does not meet this requirement.

160. See discussion *supra* Part II.A.

161. See 35 U.S.C. § 292; *Forest Grp., Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1300 (Fed. Cir. 2009); *Matthews*, *supra* note 97.

162. *Matthews*, *supra* note 97; see also discussion *supra* Part I.D.

163. *Matthews*, *supra* note 97.

164. See *id.*

165. See *Pequignot v. Solo Cup Co.*, 640 F. Supp. 2d 714, 728 (E.D. Va. 2009).

166. See *Pequignot v. Solo Cup Co.*, 608 F.3d 1356, 1363 (Fed. Cir. 2010) (“A *qui tam* action is civil in form, even though it arises under a criminal statute.”).

167. *United States v. Shapleigh*, 54 F. 126, 130 (8th Cir. 1893).

168. See *Unique Product Solutions, Ltd. v. Hy-Grade Valve, Inc.*, No. 5:10-CV-1912, 2011 WL 924341, at \*3 (N.D. Ohio Mar. 14, 2011) (noting that the government—which intervened as of right in this case—referred to § 292 as a “civil-criminal hybrid”); see also *Askanase*, *supra* note 37, at 483 (calling the False Claims Act “a quasi-criminal statute hiding behind a civil mask”).

169. *Kennedy v. Mendoza-Martinez*, 372 U.S. 144, 186 (1963).

### B. Due Process Requirements

The Due Process Clause (DPC) of the Fifth Amendment states, “No person shall . . . be deprived of life, liberty, or property, without due process of law.”<sup>170</sup> This clause is “intended to secure the individual from the arbitrary exercise of the powers of government.”<sup>171</sup> Due process encompasses both substantive and procedural aspects. First, substantive due process—which is not implicated by § 292—“bar[s] certain government actions regardless of the fairness of the procedures used to implement them,” and thus “serves to prevent governmental power from being used for purposes of oppression.”<sup>172</sup> Second, procedural due process—the variety relevant here—acts as a “guarantee of fair procedure” that prevents the government, *inter alia*, from “tak[ing] [a defendant’s] property without providing appropriate procedural safeguards.”<sup>173</sup> Procedural due process “imposes constraints on governmental decisions which deprive individuals of ‘liberty’ or ‘property’ interests within the meaning of the Due Process Clause.”<sup>174</sup> Importantly, when a law violates procedural due process, “it is not the deprivation of property or liberty [under the law] that is unconstitutional; [rather] it is the deprivation of property or liberty *without due process of law*—without adequate procedures.”<sup>175</sup>

The Supreme Court put forth a three-factor analysis in *Mathews v. Eldridge* for identifying the “specific dictates of [procedural] due process” in a given legal context:

First, the private interest that will be affected by the official action; second, the risk of an erroneous deprivation of such interest through the procedures used, and the probable value, if any, of additional or substitute procedural safeguards; and finally, the Government’s interest, including the function involved and the fiscal and administrative burdens that the additional or substitute procedural requirement would entail.<sup>176</sup>

170. U.S. CONST. amend. V. The Fifth Amendment Due Process Clause applies only to the federal government. The Fourteenth Amendment also contains a Due Process Clause that applies to the States. *See* U.S. CONST. amend. XIV (“[N]or shall any State deprive any person of life, liberty, or property, without due process of law”). As a federal statute, § 292 implicates the Fifth Amendment. Courts have interpreted procedural due process requirements to be the same under both amendments. *See* *Malinski v. New York*, 324 U.S. 401, 415 (1945) (Frankfurter, J., concurring) (“To suppose that ‘due process of law’ meant one thing in the Fifth Amendment and another in the Fourteenth is too frivolous to require elaborate rejection.”). Therefore, although some of the cases in this Part discuss due process under the Fourteenth Amendment, the courts’ reasoning applies with equal force to due process under the Fifth Amendment.

171. *Daniels v. Williams*, 474 U.S. 327, 331 (1986) (quotation and citation omitted).

172. *Id.* (quotation and citation omitted).

173. *Id.* at 337 (Stevens, J., concurring).

174. *Mathews v. Eldridge*, 424 U.S. 319, 332 (1976).

175. *Daniels*, 474 U.S. at 339 (Stevens, J., concurring) (emphasis in original).

176. *Mathews*, 424 U.S. at 334–35.

Applying this framework to the false-marking statute illustrates that a higher burden of proof than a mere preponderance must be imposed on § 292 to satisfy due process requirements.<sup>177</sup> Each of the three *Mathews* factors is discussed in turn below.

### 1. The Private Interests at Stake

The first *Mathews* factor looks to the private interests affected by the official action.<sup>178</sup> First, false-marking defendants have a property interest in the money they stand to lose under § 292. The Supreme Court has emphasized that “the property interests protected by procedural due process extend well beyond actual ownership of real estate, chattels, or money,”<sup>179</sup> which implicitly encompasses money as a protected property interest.<sup>180</sup> Courts have also explicitly recognized money as a property interest under the DPC.<sup>181</sup> After *Forest Group, Inc. v. Bon Tool Co.*—in which the Federal Circuit held that the \$500 penalty under § 292 applies on a per-article basis—defendants stand to lose *enormous* sums of money if found liable for falsely marking a large quantity of mass-produced products.<sup>182</sup>

Second, false-marking defendants may possess a liberty interest in preserving their professional reputations in order to ensure their ability to garner future business. In *Board of Regents of State Colleges v. Roth*, the Supreme Court suggested that governmental action may implicate a protected liberty interest by imposing a stigma on one’s “good name, reputation, honor, or integrity” that “foreclose[s] [one’s] freedom to take advantage of other employment opportunities.”<sup>183</sup> The Court clarified this

177. Cf. LaSalle, *supra* note 126, at 518–33 (engaging in a comprehensive analysis of the *Mathews* framework as applied to the False Claims Act and concluding that “the Due Process Clause demands a greater degree of protection than that provided by setting the burden of proof at merely a preponderance of the evidence,” thereby advocating for the clear and convincing standard).

178. *Mathews*, 424 U.S. at 335.

179. *Bd. of Regents of State Colls. v. Roth*, 408 U.S. 564, 571–72 (1972).

180. See *Franken Invs., Inc. v. City of Flint*, 218 F. Supp. 2d 876, 886 (E.D. Mich. 2002).

181. See *Herrada v. City of Detroit*, 275 F.3d 553, 556 (6th Cir. 2001) (property interest in money paid for parking citations); *Hampton v. Hobbs*, 106 F.3d 1281, 1287 (6th Cir. 1997) (“Prisoners do have a protected interest in their money, . . . [and] we must determine whether the process provided in the statute satisfies the constitutional requirements of procedural due process.”); *Mahers v. Halford*, 76 F.3d 951, 954 (8th Cir. 1996) (“We agree . . . that inmates have a property interest in money received from outside sources. . . . Thus, inmates are entitled to due process before they can be deprived of these monies.”).

182. See *Forest Grp., Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1304 (Fed. Cir. 2009); see also *Pequignot v. Solo Cup Co.*, 608 F.3d 1356, 1359 n.1 (Fed. Cir. 2010).

183. *Bd. Of Regents*, 408 U.S. at 573–74 (in the context of government employment of a state university professor); see also *Pro-Mark, Inc. v. Kemp*, 781 F. Supp. 1172, 1175 (S.D. Miss. 1991) (“[A] liberty interest would be implicated such as would trigger due process concerns if the suspension [of a government contractor] were based on charges of fraud or dishonesty so as to impose a stigma which foreclosed plaintiff’s ability to obtain other contracts.”).

notion in *Paul v. Davis* by holding that although one's "interest in reputation [alone] . . . is neither 'liberty' nor 'property' guaranteed against [governmental] deprivation without due process of law," due process protections *are* implicated when one's reputation suffers from stigma caused by governmental action *and* one's "[previously recognized] right or status . . . [is] distinctly altered or extinguished."<sup>184</sup> This has become known as the "stigma-plus test."<sup>185</sup> Some courts have interpreted *Roth* and *Davis*—at least in the government-employment context—to mean that an employee's liberty interest in "purs[ing] the occupation of his choice" may be infringed when a government-employer's termination of the employee somehow publicly "stigmatize[s]" the latter, thereby causing the employee to "suffer[] a tangible loss of other employment opportunities."<sup>186</sup>

In the false-marking context, defendants facing § 292 claims stand to have their professional reputations significantly damaged by the stigma that attaches through false-marking liability.<sup>187</sup> As a result of this stigma, a false-marking defendant's ability to secure future business could be jeopardized, especially if the public learns of the defendant's false-marking activity and thereafter boycotts the defendant's products.<sup>188</sup> This situation is analogous to that described above where the government terminates an employee in a publicly stigmatizing fashion and thereby interferes with the latter's liberty to "pursue the occupation of his choice."<sup>189</sup> In both situations, the government's actions negatively impact the public's perception of the stigmatized party, thereby endangering the latter's opportunity to pursue desired employment or business prospects. Accordingly, false-marking defendants arguably hold a protected liberty interest in their business reputations.<sup>190</sup>

## 2. Insufficiency of Existing Procedures and Proposed Alternative Procedures

The second *Mathews* factor addresses the sufficiency of current procedures and the benefit of alternative procedural safeguards.<sup>191</sup> Here, the

184. *Paul v. Davis*, 424 U.S. 693, 712 (1976).

185. See *Hart v. Parks*, 450 F.3d 1059, 1070 (9th Cir. 2006).

186. *Townsend v. Vallas*, 256 F.3d 661, 669–70 (7th Cir. 2001); see also *Baar v. Jefferson Cnty. Bd. of Educ.*, 311 F.App'x 817, 826 (6th Cir. 2009).

187. See discussion *supra* Part III.B.3.

188. See *id.*

189. See *Townsend*, 256 F.3d at 669–70.

190. Cf. *LaSalle*, *supra* note 126, at 525–26 (arguing that the interests at stake for defendants sued under the False Claims Act include reputational harm and monetary loss).

191. See *Mathews v. Eldridge*, 424 U.S. 319, 335 (1976).

only contested aspect of existing procedures is application of the preponderance standard to § 292 claims. As previously discussed, courts generally apply the preponderance standard in civil disputes for which society has the *least* concern for the outcome and feels comfortable allocating the risk of error *equally* among the litigants.<sup>192</sup> In light of this observation, the preponderance standard is inappropriate as applied to § 292. More specifically, the mandatory rebuttable presumption of intent under § 292—which arises once a plaintiff has shown that the defendant’s product was falsely marked and that the defendant knew the marking was false—should rest on a greater evidentiary showing than a mere preponderance.<sup>193</sup> First, § 292 is at minimum a quasi-criminal, punitive provision, which renders false-marking litigation quite unlike typical civil disputes.<sup>194</sup> Second, given that § 292 is a quasi-criminal provision, society demands greater assurance than the preponderance standard can provide that false-marking defendants have not wrongfully been found liable. Finally, the risk of error in a false-marking suit should not be allocated equally among the litigants because the interests at stake for the defendant are much more significant than those of the *qui tam* plaintiff, particularly when the latter has suffered no competitive injury (as is usually the case) and seeks only financial gain.<sup>195</sup>

As an alternative procedure, courts should require false-marking plaintiffs to prove the elements of § 292 claims by *clear and convincing evi-*

192. See discussion *supra* Part I.E.1.

193. See *Pequignot v. Solo Cup Co.*, 608 F.3d 1356, 1362–64 (Fed. Cir. 2010) (discussing rebuttable presumption of intent to deceive the public). As a threshold matter, it is unclear whether the Federal Circuit intended for this presumption to be treated as a civil or a criminal one. On the one hand, when the Federal Circuit first fashioned the presumption in *Pequignot*, the court seemingly viewed it as criminal, as evidenced by the court’s citation to *Sandstrom v. Montana* for the proposition that a “conclusive presumption regarding intent in the criminal context [would be] unconstitutional” and its statement that § 292 is a “criminal statute.” *Id.* at 1363. In the criminal context, mandatory presumptions—even rebuttable ones—that shift the burden of persuasion on the element of intent to defendants are unconstitutional under the Due Process Clause because they relieve the government of the burden of persuasion on a key element of the offense. See *Francis v. Franklin*, 471 U.S. 307, 317 (1985). On the other hand, the *Pequignot* court also asserted that “[a § 292] *qui tam* action is civil in form, even though it arises under a criminal statute” and applied the preponderance standard to the presumption, thereby suggesting that the presumption is a civil one. *Pequignot*, 608 F.3d at 1363–64. Civil presumptions are governed by Federal Rule of Evidence 301, which states:

In all civil actions and proceedings not otherwise provided for by Act of Congress or by these rules, a presumption imposes on the party against whom it is directed the burden of going forward with evidence to rebut or meet the presumption, but does not shift to such party the burden of proof in the sense of the risk of nonpersuasion, which remains throughout the trial upon the party on whom it was originally cast.

FED. R. EVID. 301. This discussion is admittedly cursory because a full analysis of the issue is beyond the scope of this note.

194. See discussion *supra* Part IV.A.

195. See *Stauffer v. Brooks Bros., Inc.*, 619 F.3d 1321, 1325 (Fed. Cir. 2010) (holding that *qui tam* plaintiff who had suffered no competitive injury nevertheless had Article III standing to sue under § 292); Mullin, *supra* note 8.

dence.<sup>196</sup> Furthermore, the rebuttable presumption of intent to deceive should not arise unless a plaintiff has shown the predicate facts by clear and convincing evidence. This standard is preferable because: it allocates a greater risk of error to the *qui tam* plaintiffs whose interests are less significant than those of the defendants;<sup>197</sup> it better reflects society's level of concern that false-marking defendants not be erroneously found liable for a quasi-criminal act;<sup>198</sup> and it offers greater protection against the probable reputational harm faced by false-marking defendants.<sup>199</sup> Furthermore, applying the clear and convincing standard to § 292 would better ensure that penalties are imposed against only those defendants who actually engaged in the egregious practices § 292 seeks to deter. Nevertheless, the burden on defendants to *rebut* the presumption of intent (by showing that they did not act with a deceptive purpose) should remain preponderance of the evidence.<sup>200</sup> There is no reason why defendants should face a higher hurdle than they already do for proving that their false-marking activities resulted from legitimate business decisions.

### 3. The Government's Interests

The final *Mathews* factor examines any additional fiscal and administrative burdens the proposed alternative procedural safeguards would impose on the government.<sup>201</sup> Because false marking harms the public, the government has a legitimate interest in deterring the practice and seeing that those who falsely mark their products are appropriately punished.<sup>202</sup> However, requiring plaintiffs to prove false-marking claims under § 292 by clear and convincing evidence—rather than by a mere preponderance—will not negatively impact the government's interest. In fact, elevating the burden of proof may actually benefit the government. First, although *qui tam* plaintiffs facing an elevated burden will likely have to expend greater resources to investigate their cases than they otherwise would if the prepon-

196. Cf. LaSalle, *supra* note 126, at 531 (advancing the same argument with respect to the False Claims Act).

197. See discussion *supra* Part I.E.2.

198. See *id.*

199. See *id.*

200. See *Pequignot v. Solo Cup Co.*, 608 F.3d 1356, 1364 (Fed. Cir. 2010) (holding that false-marking defendants must “show by a preponderance of the evidence that [they] did not have the requisite purpose to deceive” in order to rebut the presumption of intent under § 292).

201. See *Mathews v. Eldridge*, 424 U.S. 319, 335 (1976).

202. See discussion *supra* Part I.D.



derance standard applied,<sup>203</sup> this extra cost will be imposed on the plaintiffs, themselves, and not on the government. Accordingly, wealth-seeking *qui tam* plaintiffs who have suffered no competitive injury may be deterred from bringing frivolous lawsuits under § 292, which would in turn conserve judicial resources for legitimate false-marking cases.<sup>204</sup> Second, the government has an interest in ensuring that only those defendants who acted with intent to deceive the public are penalized under the statute in order to instill public confidence in the just operation of the government's laws and to enhance the statute's deterrent effect. The clear and convincing standard is better able to achieve this objective than the less stringent preponderance standard.

### CONCLUSION

The Federal Circuit's liberal treatment of 35 U.S.C. § 292 has created a climate in which opportunistic *qui tam* plaintiffs facing a low burden of proof can recover potentially enormous sums of money under the statute with no showing of competitive injury. Not only have the court's decisions surrounding § 292 given rise to a "cottage industry" of false-marking litigation,<sup>205</sup> but they have also put false-marking defendants' property and liberty interests at stake without sufficient procedural safeguards in place to prevent erroneous deprivations.

One way to remedy this procedural deficiency and to bring the false-marking statute back into equilibrium with its intended purpose in society would be to raise the burden of proof for false-marking claims from a mere preponderance to clear and convincing evidence. Not only is this elevated burden supported by policy reasons and lessons gleaned from analogous legal contexts, but it is also *required* by the Due Process Clause of the Fifth Amendment. If the Federal Circuit fails to correct its own error in setting the burden of proof for § 292 claims too low, Congress ought to step in and rectify the situation itself.<sup>206</sup>

203. Cf. LaSalle, *supra* note 126, at 532 (acknowledging that applying the clear and convincing standard to the False Claims Act instead of the preponderance standard would require "cases . . . to be investigated in greater depth, and therefore at greater expense").

204. See Roberts, *supra* note 77, at 274 (arguing that false-marking plaintiffs facing a higher burden of proof—namely, beyond a reasonable doubt—were "dissuade[d] . . . from undertaking the expense and trouble of litigation merely for the sake of plunder").

205. *Forest Grp., Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1303 (Fed. Cir. 2009) ("[The accused false marker in this case] argues that interpreting the fine of § 292 to apply on a per article basis would encourage 'a new cottage industry' of false marking litigation by plaintiffs who have not suffered any direct harm."). Apparently, this prediction has come true.

206. In the past year, Congress has taken steps toward correcting the current false-marking situation, but its focus has been on reducing the possible damages under § 292 and limiting standing to

plaintiffs who have suffered competitive injury. *See* H.R. 1249, 112th Cong. § 16(b) (2011) (requiring competitive injury for standing under § 292 and limiting damages to those “adequate to compensate for the injury”); S. 23, 112th Cong. § 2(k) (2011) (requiring the same). As of yet, Congress has not proposed raising the burden of proof for false-marking claims.

